

News and Information

From the Tennessee Division of Consumer Affairs

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**Weekly Column by David McCollum, Director
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The Practice of Predatory Lending

This week the U. S. Congress is hearing testimony from victims of predatory lending, the practice of taking advantage of consumers who borrow money. Predatory lending seems to be on the rise, and it is the goal of the Tennessee Division of Consumer Affairs to continue arming citizens with facts which will protect them from these lenders.

Equity Stripping and Loan Flipping are among the most common forms of predatory lending. Equity Stripping is loaning money based on the equity you have in your home, regardless of your ability to make the payments. The predatory lender will foreclose when you fail to make the payments and then profit from the sale of your home. You should never sign a loan agreement unless you are sure you will be able to make the payments. Loan Flipping is refinancing your loan every so often and charging new fees and interest each time. Don't make a habit of refinancing; a little extra money today could cost a lot of extra money in the long run.

Fraudulent loan brokers often promise loans to anyone who pays an application fee regardless of credit history. Some of them require you to call a "900" number to get information, charging additional fees to your phone bill. If you give these con artists your money, not only will the "guaranteed" loan disappear, but so will your advance fee.

A number of companies now loan cash in exchange for a check which they deposit on your payday. The Truth in Lending Act requires lenders to disclose the amounts of finance charges and the annual percentage rate (APR) of the loan. Look closely at those numbers when considering a payday loan. If you borrow \$100 for two weeks and pay \$15 in fees, that's a 391% APR! If for some reason you don't have the money on the due date, you can delay payment on this loan, but it will cost you another \$15 fee. In a matter of weeks, you could pay more in interest and fees than the amount of the original loan. Instead of a getting a payday loan, find out what fees will be added if you pay one or two of your bills late. The late charges may actually be less than the loan fees. If you must get a payday loan, borrow as little as possible and be certain you will be able to pay it back on time.

If you have questions or concerns regarding predatory lending or any other consumer issue, contact the Tennessee Division of Consumer Affairs at 1-800-342-8385 or visit www.state.tn.us/consumer.

